FULL RESERVE STUDY
FUNDING ANALYSIS PLAN
Level I
WANDERMERE ESTATES HOMEOWNER'S ASSOCIATION

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1.0 INTRODUCTION

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Wandermere Estates Homeowner's Association, through Don Wilhelm, manager, authorized Criterium – Pfaff Engineers to conduct a Property Evaluation and Reserve Fund Study for the Wandermere Estates Homeowner's Association. Studies of this nature are important to ensure that a community has sufficient funds for long-term, periodic capital expenditure requirements. Anticipating large expenditures over an extended period of time through a structured analysis and scheduling process assists the Association in meeting financial requirements without increasing the service fees above permitted maximums, borrowing the funds, or levying special financial assessments to the owners.

Typically, a community association has **two broad cash requirements: the general operating reserves and the capital repair and replacement reserves**. In this report, we will focus on those items falling under the capital repair and replacement reserve criteria. We have projected a capital repair and replacement reserve for thirty (30) years. The first ten years are the most reliable. According to Washington State Law, this study should be updated annually.

This report is structured to analyze components of the community for which the Association is responsible and to assess a useful expected life and useful remaining life to those components. The anticipated scheduled repair or replacement of the component and the anticipated expense for the activity are then analyzed in conjunction with the current capital reserves funding program for the community. Funding program recommendations are made with the objective of limiting substantial cash excesses while minimizing financial burdens that can result from significant cash inadequacies.

This report is intended to be used as a tool to determine reserve fund allocation requirements for the community, to manage future Association obligations, and to inform the community of future financial needs in general. The report that follows has been prepared from the perspective of what an owner of this property would benefit from knowing. Some items, beyond those of immediate concern, may be discussed. Therefore, the report should be read in its entirety in order to fully understand all of the information that has been obtained.

2.0 EXECUTIVE SUMMARY

This homeowners association serves 116 lots. It is a master-planned, residential development located in Spokane County north of the City of Spokane, Washington. Construction began in 2004.

Wandermere Estates includes as common elements several private streets- Golf View, Quartz, Fireside, Rustic, Eagle View, Lakeview, Copper Canyon, Alpine, and Wandermere Estates Lane. Pathways including Alpine Lane cart path, Copper Canyon to Wandermere Estates Lane, Lakeview Lane walkway, a concrete walkway along the lake, and a walkway near the water feature, Also included as common areas are two entrance gates, a water feature, two concrete block retaining walls, and vinyl fencing. are also included.

In this section of the report, we will address those issues that, in our opinion, will require immediate repair or replacement. For a more detailed discussion of all of our findings and any other material deficiencies that will require repair or replacement over the term of this study, refer to the appropriate sections of this report.

The roads are in good condition. We understand that crack sealing is planned for the near future. Sealing the roads should also be planned for in the next few years.

The pathways are in good condition with some small areas of settlement cracking and edge raveling. These cracks should be sealed and gravel or soil should be backfilled along the pavement edges to help protect them.

Some mortar gaps in the lower entry monument should be cleaned and re-pointed to help prevent moisture penetration and resulting damage. Decorative steel bands around the monuments are rusting and two are loose. During the summer, these should be cleaned and painted with a high quality corrosion preventive paint and secured.

The vinyl fences have some missing and damaged panels. We understand that repairs will be made in the near future.

There are currently no regular contributions being made to the capital repair and replacement reserves. Based on our evaluation, **the current level of funding of the reserve for the common areas is not adequate, and a funding increase is recommended.** A more detailed analysis of the reserve funds has been provided in Appendix A.

There are, of course, other capital expenditures to be expected over the next thirty years. Those items that will require attention are discussed in detail in this report and can be found in their appropriate sections.

For your convenience, we have prepared the following summary of the condition of the major systems of the property. Please refer to the appropriate sections of this report for a more detailed discussion of these systems.

3.0 PURPOSE & SCOPE

3.1 Purpose

The purpose of this study is to perform a reserve fund analysis. It is intended to be used as a tool for the Wandermere Estates Homeowner's Association in determining the allocation requirements into the reserve fund in order to meet future anticipated capital expenditures for the community.

This report forecasts obligations for the community thirty years into the future. It should be noted that events might occur that could have an effect on the underlying component or system useful life assumptions used in this study. Likewise, inevitable market fluctuations can have an impact on component or system replacement and repair costs. **Therefore, a study such as this should be updated often, in order to reflect the most accurate needs and obligations of the community. According to Washington State Law, this study should be updated annually**.

3.2 Scope

This study has been performed according to the scope as generally defined by Don Wilhelm and Criterium – Pfaff Engineers. The findings and recommendations are based on interviews with the community's management personnel; a review of available documents; and an investigation of the site.

The scope of work meets the requirements presented by the State of Washington. According to the State of Washington, RCW 64.34.380, "…an association shall prepare and update a reserve study..." According to the State, the terminology for this Scope of Work is "Level I: Full reserve study funding analysis and plan".

This study was prepared by a Reserve Study Professional, as defined by State of Washington, RCW 64.34.380.

The guidelines used to determine which physical components within the community are to be included in the component inventory are based on the following general criteria:

1. The component must be a common element, or otherwise noted to be the responsibility of the Association to replace.
2. The component must have an estimated remaining useful life of thirty years or less. As the site ages, additional components may need to be added.
3. The funding for replacement should be from one source only, not funded from another area of the budget or through a maintenance contract.
4. The cost of replacement should be high enough to make it financially unsound to fund it from the operating budget.
5. Components, such as painting, which are considered deferred maintenance, are most appropriately funded from the Operating Budget instead of Reserves.

Our reserve study analysis included evaluating the following association property:

- **Site and Grounds:** In general, the site common elements include the entry gates, vinyl fences, retaining walls, and water feature. We have excluded mailboxes, electrical equipment and lighting, and irrigation systems as these are maintained from the operating budget.

- **Private Streets, Sidewalks and Curbs:** The association maintains several private asphalt paved streets with rolled concrete curbs, asphalt pathways, and a concrete sidewalk. We understand that the sidewalks along the streets are maintained by the individual homeowners.

For a complete inventory, please see Appendix B. The common element inventory was obtained from Don Wilhelm and by our inspection of the site.

This study estimates the funding levels required for maintaining the long term viability of the facility. Our approach involves:

1. Examining association managed equipment, buildings and site facilities.
2. Predicting their remaining service life and, approximating how frequently they will require repair or replacement.
3. Estimating repair or replacement costs (in 2012 dollars) for each capital item.
4. Using data developed in Steps 1, 2 and 3 to project Capital Reserve balances for Years 1 through 30.

The statements in this report are opinions about the present condition of the subject community. They are based on visual evidence available during a diligent investigation of all reasonably accessible areas falling under the responsibility of the Association. We did not remove any surface materials, perform any destructive testing, or move any furnishings. This study is not an exhaustive technical evaluation. Such an evaluation would entail a significantly larger scope than this effort. For additional limitations, see Section 8.0.

3.3 Sources of Information

Onsite inspection of the property occurred on the following date:
- 30 April 2012.

The following people were interviewed during our study:
- Don Wilhelm-Manager.

The following documents were made available to us and reviewed:
- Inventory list (provided by Mr. Wilhelm)

We based our cost estimates on some or all of the following:
- R.S. Means
- Our data files on similar projects
- Local contractors

3.4 Standards of Reference

For your reference, the following definitions may be helpful:

Excellent: Component or system is in "as new" condition, requiring no rehabilitation and should perform in accordance with expected performance.

Good: Component or system is sound and performing its function, although it may show signs of normal wear and tear. Some minor rehabilitation work may be required.

Fair: Component or system falls into one or more of the following categories: a) Evidence of previous repairs not in compliance with commonly accepted practice, b) Workmanship not in compliance with commonly accepted standards, c) Component or system is obsolete, d) Component or system approaching end of expected performance. Repair or replacement is required to prevent further deterioration or to prolong expected life.

Poor: Component or system has either failed or cannot be relied upon to continue performing its original function as a result of having exceeded its expected performance, excessive deferred maintenance, or state of disrepair. Present condition could contribute to or cause the deterioration of other adjoining elements or systems. Repair or replacement is required.

Adequate: A component or system is of a capacity that is defined as enough for what is required, sufficient, suitable, and/or conforms to standard construction practices.

All ratings are determined by comparison to other buildings of similar age and construction type. Further, some details of workmanship and materials will be examined more closely in higher quality buildings where such details typically become more relevant.

All directions (left, right, rear, etc.), when used, are taken from the viewpoint of an observer standing in front of a building and facing it.

Repair/Replacement Reserves - Non-annual maintenance items that will require significant expenditure over the life of the buildings. Included are items that will reach the end of their estimated useful life during the course of this forecast, or, in the opinion of the investigator, will require attention during that time.

4.0 DESCRIPTION

Wandermere Estates Homeowners Association serves 116 paying units. The common elements include several private roads, pathways, entry gates, water feature, and vinyl fencing. Construction began in 2004.

Wandermere Estates includes as common elements several private streets - Golf View, Quartz, Fireside, Rustic, Eagle View, Lakeview, Copper Canyon, Alpine, and Wandermere Estates Lane; pathways – Alpine Lane cart path, Copper Canyon to Wandermere Estates Lane, Lakeview Lane walkway, a concrete walkway along the lake, and a pathway near the water feature; two entrance gates, two retaining walls, a water feature, and vinyl fencing.

We have assumed that these were constructed in 2004. We understand that there are 116 paying units in this HOA.

Our study does not include the landscaping, mailboxes, irrigation systems, water feature pump and piping, electrical equipment and lighting which we understand are maintained from the operating budget.

5.0 OBSERVATIONS

The following key observations were made about the current condition of the common elements of the property.

In general for all of the asphalt surfaces, preventative maintenance includes crack repair, drainage maintenance, patching of damaged areas and regular sealing. For a residential road, we recommend sealcoating every 7 years. This helps seal small cracks, reduce moisture penetration, and UV sun damage. Both crack sealing and sealcoating provide best results when the sealants are "squeegeed" into the surface. Proper repair of asphalt cracks includes routing the crack, and pneumatically cleaning it out, then injection of a quality asphalt emulsion sealant into the crack. The roads should be observed and any open cracks or damaged areas should be repaired annually.

Water is the major cause of street deterioration. Water should drain away from the asphalt. Areas with water found to be "ponding" on the streets should be built-up, sloped, or otherwise drained to prevent destabilizing the sub-base.

The asphalt paved streets are in good condition. Some typical cracking was noted, particularly at the pavement "joints". This can lead to moisture penetration and resulting destabilization of the sub-base and damage to the streets. We understand that these cracks are to be repaired very soon. No areas of significant damage were observed to the streets. Some areas of minor damage appear to be due to construction damage and fallen rock. These should be kept under observation. Since several homes remain to be constructed, street damage by heavy trucks and equipment will likely occur. If these begin to break up, spot repairs would be indicated.

With good maintenance, paved roads have an expected useful life (EUL) of 25 years. We have planned for sealing the roads in year 2 and every 7 years thereafter. An asphalt overlay of Lakeview Lane and lower Wandermere Estates Lane is planned for year 20. Overlay of mid-Wandermere Estates Lane, Copper Canyon, and Alpine Lanes are planned for year 25, and overlay of upper Wandermere Estates Lane, Golf View, Quartz, Fireside, Rustic, Eagle View is budgeted for year 30.

We have based our asphalt repair estimates on current local estimates and those published by RS Means. With asphalt pricing based on oil prices and extremely volatile, these estimates may vary widely from the actual cost at the time of the work.

A concrete bridge over the water feature stream on lower Wandermere Estates Lane has a cobble stone surface and is constructed over a galvanized steel culvert. A few cobble stones are damaged, probably due

to heavy loads. These can be replaced from the operating budget in the near future. Cobble stone mortar should be inspected annually and any cracked or loose areas should be cleaned and repaired from the operating budget. The culvert has a fabric and concrete liner. This installation has an expected life of 50 to 70 years which is outside the reserve period.

The 5 foot wide concrete sidewalk along the lake is in good condition. "Rolled curbs" are provided along the streets and are in good condition with some cracking that appears to be due to heavy equipment loads during construction.

Concrete flatwork has a published expected useful life (EUL) of 30 years, however, we believe in this area and this situation, the sidewalks and curbs can last indefinitely with regular maintenance. This places their replacement outside of the 30 year analysis. We have allowed for spot repairs and replacement of deteriorated sections (5% of the total) in year 15 of the analysis.

The asphalt paved common pathways are approximately 8-1/2 feet while the cart paths are 14 ft wide. Both are in generally good condition. A small amount of raveling and undermining of the cart path edges were noted at the Alpine Lane path and Copper Canyon path. To help prevent further damage, these areas should have soil or gravel backfilled along the path edges. Some settlement cracking was found along the both cart paths.

We understand that the Alpine Lane, Copper Canyon, and the water feature pathways are to be sealed in the near future. The work on cart paths should include filling the visible settlement cracks. We have planned for re-sealing these pathways every 7 years. With good maintenance, these paths should last indefinitely.

The Lakeview Lane pathway includes an 11 foot wide wooden bridge over the water feature stream. The bridge is supported by glulam beams spanning between concrete abutments. Treated wood decking and rails are used. The bridge is in generally good condition, with one deck board slightly damaged. Even with treated wood, deterioration can be expected. The decking and rails should be inspected regularly and replaced as needed. We have assumed a life of 25 years for the glulam beams and have planned for their replacement for year 17.

The entrance gate monuments are concrete with a mortared stone veneer with metal decorative bands and ornaments. The mortar and stones are in generally good condition, although some gaps were observed here and there. These gaps should be re-mortared in the near future to help prevent moisture related deterioration. The metal bands at the exit side of the lower gate monument are loose and should be re-secured. Some rust is occurring on the bands. These should be cleaned and painted with a high quality rust preventive coating. Annual inspections and needed repairs to the stone, mortar and metal work should be carried out. These should be relatively low cost items from the operations budget. With regular maintenance, these monuments should last indefinitely.

The gate operators and touch pad controls are in good condition with an expected life of 15 years. We have planned for replacement of the operators and controls in years 7 and 22 of the analysis. The steel gates are in good condition and should last indefinitely with regular maintenance. Replacement of the hinge bearings may be needed over the years. This cost should be taken from the operating budget.

The concrete block retaining walls are in good condition. These structures have an expected life of 50+ years which is beyond the reserve period.

There are two sections of vinyl fencing along the south boundary. These have some broken panels and we understand they are to be repaired in the near future at which time it will be in good condition. Vinyl fencing has an expected life of 30 years. We have planned for its replacement in year 22 of this analysis.

6.0 RESERVE FUND ANALYSIS

Using software developed by Criterium Engineers and KPMG Peat Marwick, we have analyzed capital reserves draw-down for the projected capital expenditures to determine the amount needed. **The following is a projected reserve fund analysis for non-annual items as discussed in the report.** This projection takes into consideration a reasonable return on invested moneys and inflation. Please review this thoroughly and let us know of any changes that may be desired.

The intent of this reserve fund projection is to help the Association develop a reserve fund to provide for anticipated repair or replacements of various system components during the next thirty years.

The capital items listed are those that are typically the responsibility of the Association and are derived from documents provided by Don Wilhelm. However, association by-laws vary, and therefore, which components are the responsibility of the owner and which are the responsibility of the Association can vary. The Wandermere Estates Homeowner's Association should confirm that the items listed should be financed by the reserve fund.

This projection provides the following:

- An input sheet that defines all the criteria used for the financial alternatives, including the assumed inflation rate and rate of return on deposited reserve funds.

- A table that lists anticipated replacement and/or repair items complete with estimated remaining life expectancies, projected costs of replacement and/or repair, a frequency in years of when these items require replacement and/or repair, and a projection based on this frequency.

- A table that represents end of year balances and capital expenditures based on your current funding program and reserve balances, and alternatives to your current program.

- Since none of the Associations have any current funding, increases are

recommended in each case.

- The Association should bear in mind that unanticipated expenditures can always arise and maintenance of a significant reserve fund balance can be viewed as a way to avoid special assessments. We suggest and have assumed maintaining a minimum reserve balance of $5,000.00.

We have considered three alternatives to compare to your current funding program and recommend that the board adopt an alternative that best reflects the objectives of the community. Please keep in mind that there are a myriad of possible alternatives. As advised by Don Wilhelm, we have assumed a 0.4% return on investment and a 2.5% inflation rate. We have shown three different types of possibilities. In summary they are as follows:

Current Funding Rate: We have been asked to start with a "$0" balance.

- **Alternative 1:** Set the contribution immediately to $300.00 per unit per year, then increase the contribution to $373.00 per unit per year in year 6, $446.00 in year 11, and $519.00 in year 16. This alternative will maintain the minimum balance.

- **Alternative 2:** Set the contribution amount immediately to $276.00 per unit per year and increase the contribution 25% in year 6, year 11, and year 16 to a total of 539.06 per unit per year following year 16. This alternative will maintain the minimum balance.

- **Alternative 3:** Set the contribution amount immediately to $328.00 per unit per year and levy a special assessment of $1500.00 per unit in year 10 and another special assessment of $2000.00 per unit in year 25. This alternative will maintain the minimum balance.

Addendum A lists estimated capital reserves over the analysis period.

7.0 CONCLUSION

Since we have assumed no current funding, the development is underfunded.

In summary, the common elements are in generally good condition and with good maintenance, should provide adequate service throughout their useful lives.

The association needs to begin contributing to the reserve accounts to maintain these common elements. Three suggested alternatives and contribution levels are provided for each development.

8.0 LIMITATIONS

The observations described in this study are valid on the date of the investigation and have been made under the conditions noted in the report. We prepared this study for the exclusive use of Wandermere Estates Homeowner's Association. Criterium – Pfaff Engineers does not intend any other individual or party to rely upon this study without our express written consent. If another individual or party relies on this study, they shall indemnify and hold Criterium – Pfaff Engineers harmless for any

damages, losses, or expenses they may incur as a result of its use.

This study is limited to the visual observations made during our inspection. We did not remove surface materials, conduct any destructive or invasive testing, move furnishings or equipment, or undertake any digging or excavation. Accordingly, we cannot comment on the condition of systems that we could not see, such as buried structures and utilities, nor are we responsible for conditions that could not be seen or were not within the scope of our services at the time of the investigation. We did not undertake to completely assess the stability of the roadways or the underlying soil since this effort would require excavation and destructive testing. Likewise, this is not a seismic assessment.

We did not investigate the following areas:

- Buried utilities or infrastructure
- Concealed structural members or systems

We do not render an opinion on uninvestigated portions of the community.

We did not perform any computations or other engineering analysis as part of this evaluation, nor did we conduct a comprehensive code compliance investigation. This study is not to be considered a warranty of condition, and no warranty is implied. The appendices are an integral part of this report and must be included in any review.

In our Reserve Fund Analysis, we have provided estimated costs. These costs are based on our general knowledge of building systems and the contracting and construction industry. When appropriate, we have relied on standard sources, such as Means Building Construction Cost Data, to develop estimates. However, for items that we have developed costs (e.g.: structural repairs), no standard guide for developing such costs exists. Actual costs can vary significantly, based on the availability of qualified contractors to do the work, as well as many other variables. We cannot be responsible for the specific cost estimates provided.

We have performed no design work as part of this study, nor have we obtained competitive quotations or estimates from contractors as this also is beyond the scope of the project. The actual cost to remedy deficiencies and deferred maintenance items that we have identified may vary significantly from estimates and competitive quotations from contractors.

If you have any questions about this study or the reserve fund analysis, please feel free to contact us. Thank you for the opportunity to be of assistance to you.

Respectfully submitted,

Kenneth Pfaff, P.E.
Criterium – Pfaff Engineers

Appendix A: RESERVE FUND PROJECTIONS

Appendix B: PROJECT INVENTORY

Appendix C: PROJECT PHOTOGRAPHS

Appendix D: PROFESSIONAL QUALIFICATIONS